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SETTLEMENT AGREEMENT

THIS AGREEMENT to settle and release claims is made by and between the State of Idaho, CMC Heartland Partners, and Potlatch Corporation.

DEFINITIONS

1. "Agreement" means this agreement to settle and release claims, as it may be amended from time to time.

2. "Avery Landing Property" means the former Chicago, Milwaukee, St. Paul & Pacific railyard located adjacent to the St. Joe River in the Town of Avery, Shoshone County, Idaho, sold to Potlatch Corporation by the Milwaukee Road Bankruptcy Trustee in a Sale and Purchase Agreement dated May 1, 1980.

3. "CMC" means CMC Heartland Partners, a Delaware general partnership, as well as its partners, attorneys, officers, agents and employees, and any and all of its predecessors, successors, subsidiaries, affiliates, divisions and other organization units of any kind.

4. "Consent Order" means the Consent Order entered into among the State of Idaho and Potlatch signed by the Idaho Department of Health and Welfare on behalf of the State of Idaho on August 16, 1994, as it may be amended from time to time, a copy of which is attached hereto as "Exhibit A" and incorporated by reference herein.

5. "Environmental Claims" means any claims, liabilities, causes of action, or rights pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, as amended



("CERCLA"), the Resource Conservation and Recovery Act, as amended ("RCRA"), the Clean Water Act, as amended ("CWA"), the Oil Pollution Prevention Act, the Idaho Environmental Protection and Health Act, as amended ("EPHA"), or any other federal, state or local environmental law, statute, rule or regulation or under common law pertaining to health, safety, or the protection of the environment.

6. "State of Idaho" means any and all divisions, departments and other governmental units of the State of Idaho.

7. "Milwaukee Road Reorganization Proceedings" means the proceedings in the United States District Court for the Northern District of Illinois captioned "In the Matter of Chicago, Milwaukee, St. Paul and Pacific Railroad", No. 77 B 8999.

8. "Parties" means CMC, the State of Idaho and Potlatch.

9. "Potlatch" means Potlatch Corporation, a Delaware corporation, as well as its officers, directors, attorneys, agents and employees, and any and all of its predecessors, successors, subsidiaries, affiliates, divisions and other organization units of any kind.

RECITALS

WHEREAS, from 1909 to 1977, the Chicago, Milwaukee, St. Paul & Pacific Railroad ("Milwaukee Road") and its predecessors owned property located in Avery, Idaho adjacent to the St. Joe River;

WHEREAS at various times during its ownership, the Milwaukee Road operated a railyard on the Avery Landing Property, which

included a roundhouse, turn table, maintenance facility, and a 500,000-gallon above ground storage tank;

WHEREAS, as early as June 1970, the State of Idaho had received complaints from the United States Forest Service that oil was being discharged by the Milwaukee Road from the Avery Landing Property into the St. Joe River and demanded that the Milwaukee Road cease the discharges;

WHEREAS, on December 19, 1977, the Milwaukee Road entered into reorganization proceedings pursuant to section 77 of the Bankruptcy Act of 1898, in which the Reorganization Court (i) established deadlines known as "bar dates" for the filing of claims against the estate of the Milwaukee Road, (ii) ordered that all post-petition claims (that is, claims arising against, or obligations incurred by, the Milwaukee Road during the period of the reorganization proceeding) had to be filed on or before September 10, 1985, and (iii) ordered that all claims that arose after the reorganization commenced (i.e., after December 19, 1977) had to be filed by September 10, 1985;

WHEREAS, pursuant to a contract dated May 1, 1980, Potlatch purchased the Avery Landing Property from the Milwaukee Road Bankruptcy Trustee pursuant to a Sale and Purchase Agreement which identified "Richard B. Oglivie, acting solely as Trustee of the Avery Landing Property of Chicago, Milwaukee, St. Paul and Pacific Railroad Company, Debtor," as the seller of the Avery Landing Property, and which stated that the Avery Landing Property was being sold in connection with the reorganization proceedings;

WHEREAS, the State of Idaho was aware of the sale of the Avery Landing Property from the Milwaukee Road Trustee to Potlatch;

WHEREAS, after the sale, Potlatch operated a private rail line on the Avery Landing Property for several years, using the rail line to transport timber from its logging operations to local saw mills and paper companies;

WHEREAS, on November 12, 1985, the Reorganization Court entered Order No. 866, known as the "Consummation Order," which became effective on the "Consummation Date" (November 25, 1985) and which barred and forever discharged all claims against the Trustee, the estate, the Milwaukee Road, and its successors and assigns, including CMC, except those claims which had been timely filed with the Reorganization Court;

WHEREAS, in 1988, the State of Idaho initiated discussions with Potlatch and CMC, and asserted that Potlatch and CMC were responsible for cleaning up oil contamination on the Avery Landing Property and the adjacent St. Joe River;

WHEREAS, on February 17, 1994, the State of Idaho (i) notified CMC and Potlatch that, under Idaho regulations, CMC and Potlatch were allegedly jointly and severally liable for the contamination at the Avery Landing Property, (ii) demanded that CMC and Potlatch perform a release investigation and corrective action in accordance with a Schedule and Criteria established by the State of Idaho, and (iii) notified Potlatch and CMC that it could, in the alternative, enter into a Consent Order which would require Potlatch and CMC to follow a remediation plan which Potlatch previously prepared;

WHEREAS, CMC has denied and continues to deny liability with respect to the Avery Landing Property on a variety of legal bases, including but not limited to the fact that both the State of Idaho and Potlatch knew or should have known about oil seepage into the St. Joe River prior to the Consummation Date, had notice of the Milwaukee Road bankruptcy and the relevant bar dates, and yet failed to file a timely proof of claim in the reorganization proceedings, which in turn resulted in their claims against the Milwaukee Road (and its successors and assigns, including CMC) being discharged by the Consummation Order;

WHEREAS, both the State of Idaho and Potlatch have disputed CMC's denial of liability and have asserted that they intend to pursue CMC for its allocable share of the cost of remediating the oil contamination at the Avery Landing Property; and

WHEREAS, all Parties are desirous of settling fully and completely any claims which exist or may exist among them with respect to the Avery Landing Property;

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, the Parties agree as follows:

TERMS

1. Potlatch hereby agrees to perform or cause to be performed all work required under the terms of the Consent Order.
2. CMC hereby agrees to pay to Potlatch the sum of \$60,000.00 towards the cost of work under the Consent Order. Upon Potlatch's receipt of such payment, Potlatch and the State of Idaho acknowledge and agree that CMC has fully satisfied all of its

obligations, if any, to Potlatch and/or the State of Idaho pertaining to the subject matter of this Agreement and any work to be performed by CMC under the Consent Order.

3. In consideration for CMC's payment of \$60,000 towards the cost of the work under the Consent Order, the receipt and sufficiency of which is hereby acknowledged, Potlatch does hereby release and forever discharge all manner of action or actions, cause or causes of action in law or in equity, suits, debts, liens, contracts, agreements, promises, liabilities, claims, demands, damages, losses, costs, or expenses of any nature whatsoever, whether known or unknown, accrued or not accrued, fixed or contingent, that Potlatch had or may have had against CMC, arising out of or relating to the Avery Landing Property, including, but not limited to those claims which Potlatch may not be aware of and those not mentioned in this Agreement, which Potlatch now has or hereafter may have against CMC, including, without limitation, any Environmental Claims which occurred or arose at any time prior to the effective date of this Agreement or which concern the subject matter of this Agreement.

4. In consideration of the \$60,000 payment by CMC towards the cost of work under the Consent Order, and the work to be performed by Potlatch under the terms of the Consent Order, from and after the date of this Agreement, the State of Idaho does hereby release and forever discharge CMC of and from any and all Environmental Claims relating to the Avery Landing Property.

5. In consideration of the work to be performed by Potlatch under the terms of the Consent Order, the State of Idaho, through the Idaho Department of Health and Welfare, has provided a release of claims to Potlatch in the Consent Order. Nothing in this Settlement Agreement shall limit the right or authority of the State of Idaho to enforce in full the terms of the Consent Order against Potlatch and to seek all remedies available under applicable law if Potlatch does not perform as required by the terms of the Consent Order.

6. Subject to Potlatch's compliance with the terms of the Consent Order, none of the Parties shall seek reimbursement from any opposing Party for costs or expenses incurred in connection with any of the matters resulting in this Agreement.

7. No payments made nor actions undertaken pursuant to this Agreement constitute an admission of any liability or responsibility for, or the correctness of, any claim which was or might have been asserted by any of the Parties hereto, or by any third party, (liability as to which is hereby expressly denied by CMC and Potlatch), but are being made or taken solely for the purposes of settling this matter and avoiding further litigation costs.

8. The provisions of this Agreement are severable, and if any part of it is found to be unenforceable, the other paragraphs shall remain fully valid and enforceable.

9. Each party acknowledges and agrees that no representations or promises have been made or relied upon by any of

them or by any person acting for or on their behalf in connection with the subject matter of this Agreement which are not specifically set forth in this Agreement, including the Consent Order that is incorporated into this Agreement. All representations and promises made by one party to another, whether in writing or orally, are understood by the parties to be merged into this Agreement, including the Consent Order.

10. This Agreement shall be binding upon and shall inure to the benefit of the Parties, their successors, agents, and assigns. In the event Potlatch conveys title to the Avery Landing Property, or any part thereof, to a third party purchaser, Potlatch agrees to defend, indemnify, and hold CMC harmless against any claim by the purchaser or its successors or assigns arising out of any failure by Potlatch to perform the work required under the terms of the Consent Order. The Parties agree that sale of the property by Potlatch shall not release Potlatch from its obligations under the Consent Order, unless, upon review and approval by the Department, the obligations thereunder are expressly assigned and accepted by the new owner.

11. Except with respect to the Consent Order that may be amended by an agreement signed by Potlatch and the Department, this Agreement and all documents and instruments executed in connection herewith or in furtherance hereof may not be amended, modified, or supplemented, except by agreement in writing and signed by all the Parties.

12. This Agreement shall be governed and construed in accordance with the laws of the State of Idaho.

13. This agreement may be executed in counterparts.

AGREED TO:

DATED THIS _____ day of _____, 1994.

CMC HEARTLAND PARTNERS

By: _____

DATED THIS 16th day of AUGUST, 1994.

IDAHO DEPARTMENT OF HEALTH AND WELFARE

By: *Donna L. Harris*

DATED THIS 18 day of August, 1994.

POTLATCH CORPORATION

By: *Richard K. Kelly*

avery.sa/lvh
August 12, 1994

12. This Agreement shall be governed and construed in accordance with the laws of the State of Idaho.

13. This agreement may be executed in counterparts.

AGREED TO:

DATED THIS _____ day of _____, 1994.

CMC HEARTLAND PARTNERS

By: *Zadd*

DATED THIS 16th day of AUGUST, 1994.

IDAHO DEPARTMENT OF HEALTH AND WELFARE

By: *Dwight Hauer*

DATED THIS _____ day of _____, 1994.

POTLATCH CORPORATION

By: _____

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August 12, 1994